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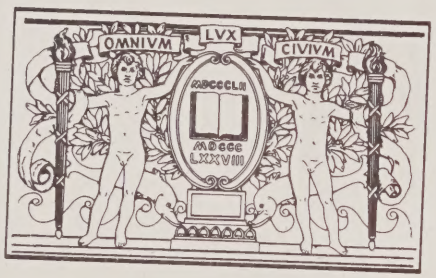

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Demand for Office and Retail Space, Hotels and Housing Units in the 1990s in the City of Boston and the Midtown Cultural District

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February 1987

DEMAND FOR OFFICE AND RETAIL SPACE, HOTEL ROOMS AND HOUSING UNITS IN THE 1990S IN THE CITY OF BOSTON AND THE MIDTOWN/CULTURAL DISTRICT

The Boston economy in the 1990's will have plenty of demand for commercial office space, hotel rooms, retail space and housing to support the projects that are proposed for the Midtown/Cultural District. The supply of development in the proposed program for the District would meet 18 percent of the expected overall city demand in the office market, 25 percent of the retail space needs, 13 percent of the required hotel rooms and perhaps 7 percent of demand for additional housing units. See Table 1.

Employment levels in the city represent demand for commercial space to accommodate workers. Projections of employment in Boston between 1990 and 2000 indicate that Boston's growth will continue at a strong pace nearly equal to that during the surge of the 1980's. Population projections also indicate that demand for housing will be strong. How readily the proposed new supply in the Midtown/Cultural District is absorbed will depend on how much new supply becomes available in other parts of the city.

Demand for Office Space

The City of Boston has enjoyed ten years of economic expansion. The number of jobs in the city grew from 511,000 in 1976 to 605,000 in 1986, a gain of 94,000 or 18 percent. The number of workers who occupied private office space

TABLE 1. SUMMARY OF DEMAND FOR OFFICE, RETAIL, HOTEL AND HOUSING, CITY OF BOSTON, 1990-2000, COMPARED TO PROPOSED SUPPLY IN MIDTOWN/CULTURAL DISTRICT

MARKET	Citywide Requirements 1990-2000	Proposed Supply in Midtown/ Cultural District	Midtown Supply Percent of Boston Demand
Office Space millions of sq.ft.	14.65	2.66	18
Retail Space millions of sq.ft.	2.08	0.53	25
Hotel Rooms	3,810	500	13
Housing Units	25,000 +	1,765	7

Sources: See Tables 2-5.

increased from 144,000 in 1976 to about 194,000 in 1986, an increment of nearly 35 percent. These office workers occupied 31 million square feet of office space in 1976 and about 43 million square feet in 1986.

Relatively low office vacancy rates indicate strong demand for the current supply of office space. Vacancies for Class A office space had peaked at 9 percent in the second quarter of 1985 following a large volume of space in new buildings entering the market in 1984. The Class A vacancy rate diminished to 7 percent in the second quarter of 1986 and fell again to 6 percent in the third quarter. Boston's fall 1986 overall vacancy rate was 8 percent which was well below the 15 percent rate in Boston's suburban ring and the second lowest among 27 of the nation's large cities.

Strong demand for office space should continue through the 1990s. Analyses and projections of employment and income for New England, Massachusetts and the Boston metropolitan area imply a bright outlook for Boston's office market. Reports from the U.S. Bureau of Economic Analysis, in 1985, identified New England as a high-growth region and projected substantial economic expansion to the year 2000 for the Boston metropolitan region. The Boston region would improve its ranking among the nation's 330 metropolitan areas from 7th to 6th in personal income, from 15th to 11th in per capita personal income, from 5th to 4th in employment and from 6th to 5th in population. Significantly, the City of Boston's office-related industries--business and

professional services, finance and money management and communications--are among those that are projected to grow most rapidly.

The National Planning Association, in a study in 1986, projected a job gain of 755,000, or 33 percent, in the Boston metro area between 1985 and 2000. That gain would be second largest in the country in magnitude, next to the Los Angeles area.

Projections for the City of Boston are based on these studies and the Boston regional economic model operated by the BRA. By the year 2000, workplaces in Boston could support an additional 152,000 employees. Employment is projected to grow from 594,000 in 1985 to 746,000 in 2000. That represents an increase of about 10,000 jobs per year, or a 26 percent gain over the fifteen years. See Table 2.

Projections for employment in private office space indicate that the number of office jobs will reach 288,000 by the year 2000, or 39 percent of all jobs in Boston workplaces. That level of employment would require about 63 million square feet of office space, compared to the 41 million square feet that were occupied in 1985. See Table 3. In the 1990s, demand would arise for about 14.6 million square feet of net additional office space. The proposed development program for the Midtown/Cultural District would add 2.7 million square feet to the office market, or about 18 percent of the demand in the 1990s.

TABLE 2. EMPLOYMENT IN THE CITY OF BOSTON BY INDUSTRY
1976, 1985 AND PROJECTIONS TO 1990, 1995 AND 2000

THOUSANDS OF EMPLOYEES

INDUSTRY	1976	1985	1990	1995	2000
Agri/Mining	1.0	1.3	1.3	1.3	1.3
Construction	14.7	13.7	14.5	15.1	15.4
Manufacturing	53.8	42.5	41.7	41.0	40.3
Transportation/P.U.	34.8	36.6	37.3	39.0	40.5
Wholesale Trade	31.2	25.8	26.0	26.1	26.2
Retail Trade	57.9	63.7	67.5	70.4	72.7
Finance/Ins./Real Est.	64.7	85.1	95.3	102.0	108.1
Banking	14.0	22.8	24.6	26.2	27.8
Other Credit & Securities	7.2	13.3	16.5	19.3	21.0
Insurance	35.8	33.7	37.0	38.4	39.6
Real Estate & Other Investment	7.1	14.2	15.8	17.0	18.2
Services	168.3	225.9	266.7	301.8	336.1
Hotel	4.9	10.2	11.2	12.1	12.9
Medical	56.7	65.9	75.7	83.3	88.3
Educational	23.5	27.7	29.9	30.8	31.9
Cultural	5.1	6.3	7.0	7.3	7.6
Social/Nonprofit	18.2	20.5	24.1	25.7	27.5
Business	30.4	47.2	60.2	73.8	87.8
Professional	22.4	36.3	45.0	53.9	63.5
Personal & Repair	7.3	11.8	13.6	15.1	16.6
Government	84.8	99.2	102.1	104.2	105.4
Total Employment	511.2	593.6	652.4	700.9	746.1

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Information System, 1976-1984, Projections 1983-1995;
Bureau of the Census, County Business Patterns 1976-1984.
National Planning Association, Projections 1985-2000.
Massachusetts Division of Employment Security, ES-202 Series 1980-1985 and Massachusetts Industrial Employment Projected Changes 1984-1995, May 1986.
Regional Economic Models, Inc., Boston Regional Model, 1976-1995.

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TABLE 3. EMPLOYMENT IN COMPETITIVE OFFICE SPACE IN THE CITY OF BOSTON BY INDUSTRY
1976, 1985 AND PROJECTIONS TO 1990, 1995 AND 2000

THOUSANDS OF EMPLOYEES

INDUSTRY	1976	1985	1990	1995	2000
Agri/Mining	0.1	0.2	0.2	0.2	0.2
Construction	1.8	1.7	1.9	2.1	2.1
Manufacturing	5.4	5.5	5.8	6.1	6.5
Transportation/P.U.	12.5	13.4	13.8	15.2	16.2
Wholesale Trade	1.6	1.3	1.3	1.3	1.3
Retail Trade	2.9	3.2	3.4	3.5	3.6
Finance/Ins./Real Est.	44.0	60.4	69.6	76.5	83.2
Services	60.3	87.6	109.9	128.3	156.7
Business	24.0	37.3	48.1	59.4	71.2
Professional	20.2	32.7	40.8	49.0	57.8
Other Services	16.1	17.7	21.0	19.9	27.7
Government	15.9	14.4	15.3	16.7	17.9
Total	144.4	187.7	221.2	249.9	287.8
Percent of All Employees	28	32	34	36	39
Occupied Office Space Required in Millions of Square Feet:					
@ 220 S.F./Employee	31.8	41.3	48.7	55.0	63.3

Sources: See projections on Table 5;
Boston Redevelopment Authority, Office Industry Survey, 1978;
Boston Redevelopment Authority, Research Department.

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Demand for Retail Space

Construction of new retail space in Boston in the last half of the 1980's reflects strong demand for retail facilities that should continue into the next decade. From 1986 through 1989, scheduled construction projects will add 985,200 square feet of new retail floor space in Boston. See Table 4. Development is takin place, primarily, in the downtown area, Back Bay and Charlestown. Investment in all retail projects through 1989 will amount to around $145 million, in constant 1985 dollars. The completion of Marketplace Center, near Faneuil Hall and City Place, in the State Transportation Building, in 1986 and Phase One of International Place in 1987, with 64,000, 60,000 and 40,000 square feet of retail space respectively, continue the trend of retail expansion in the downtown area. Retail development in the Charlestown Navy Yard, well underway in 1987, will amount to 106,000 square feet of space by 1989 at a construction cost of $6.7 million in constant 1985 dollars. The Navy Yard is the first substantial retail investment outside of the downtown and Back Bay areas in years.

Based on recent employment projections, jobs in retail trade in Boston will increase from 67,500 to 72,700 between 1990 and 2000, a gain of 5,200 or 8 percent. See Table 2. Using a factor of 400 square feet of retail space per employee, the net increase in retail space requirements would be 2.08 million square feet.

TABLE 4. COST AND MAGNITUDE OF CONSTRUCTION IN RETAIL TRADE, CITY OF BOSTON, 1975-1989

All Retail Construction *	Square Feet of Retail Space	Total Construction Cost in Thousands of Constant 1985 Dollars
1980 through 1982	414,143	31,000
1975 through 1982	1,427,643	160,564
1983 through 1985	1,538,645	162,860
1975 through 1985	2,966,288	323,424
1986 through 1989	1,512,419	144,755

New Retail Construction *	Square Feet of Retail Space	Total Construction Cost in Thousands of Constant 1985 Dollars
1980 through 1982	72,500	8,028
1975 through 1982	542,500	75,014
1983 through 1985	845,750	129,000
1975 through 1985	1,388,250	204,014
1986 through 1989	985,196	114,837

* Development projects are listed by year of actual or anticipated completion. Space is "net leasable" space.

Source: Boston Redevelopment Authority, Research Department, 1986.
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The Midtown/Cultural District proposed projects would amount to about 530,000 square feet of retail space during the 1990's or about one-fourth of the projected additional retail space requirements for the city for that decade.

Demand for Hotel Rooms

Hotel room demand has responded to Boston's thriving economy and its business visitors and to the growth in the convention business nationally that brings numerous conventions to the city. In addition, tourists visit Boston in increasing numbers, providing a third source of demand for hotel rooms.

Development projects added 5,000 hotel rooms to Boston's supply between 1975 and 1986, including 3,000 between 1982 and 1986 in the Westin, the Marriott-Copley Place, the Lafayette, the Bostonian, the Embassy Suites and the Four Seasons. In 1985, Boston hotels commanded relatively high room rates, $85, and one of the highest average occupancy rates, 69 percent, among the nation's large cities.

Boston's hotel inventory stood at 11,316 at the end of 1986, 82 percent above the 6,227 rooms in 1975. In 1930, just before the impact of the Great Depression, Boston had 11,568 hotel rooms. In the following 45 years, decline in the city's economy and population, conversions to educational, institutional and residential uses and demolition took their toll on the hotel stock. Then,

TABLE 5. NUMBER OF HOTEL ROOMS BY MARKET SEGMENT, CITY OF BOSTON, SELECTED YEARS 1978-2000

	1978	1985	1990 *	2000 *
Number of Hotel Rooms	6,925	11,316	13,340	17,150
Hotel Rooms by Market Segment:				
Business Visitors	3,410	5,980	6,600	8,330
Convention Delegates	2,100	2,996	4,340	5,840
Tourist Visitors	1,415	2,340	2,400	2,980

* Projections, based in part on employment projections for the City of Boston. See J.Brown, "Boston Employment Trends and Projections by Industry," BRA Research Department, December 1986.

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between 1975 and 1986, developers responded to pent-up and burgeoning demand for hotel rooms with a rapid expansion of the stock.

Demand for hotel rooms between 1990 and 2000 will require 3,810 net additional rooms. See Table 5. The 500 hotel rooms proposed for the Midtown/Cultural District would make up 13 percent of the demand for new rooms.

Hotel room demand may be analyzed in three segments: business visitors, convention market and tourist visitors. Their shares of hotel demand are approximately 50, 30 and 20 percent, respectively.

Business Visitors

Boston's business visitors reflect the fortunes of the city's expanding activity in business and professional services, money management, health services and higher education. Between 1978 and 1985, the number of downtown workers increased by 53,000, from 252,400 in 1978 to 305,200 in 1985. This corresponded with a rise in the demand for hotel room-nights per worker from 3.8 in 1978 to 4.8 in 1985. The growth in the number of hotel room-nights per worker reflected the changing mix of downtown jobs toward the types of businesses that rely on face-to-face meetings with associates, clients and consultants from other parts of the region, country and world. Adjusting for occupancy factors in those years, business visitor hotel room demand expanded from 3,400 rooms in 1978 to 5,980 in 1985, or about 365 rooms per year.

Between 1985 and 1990, an increment of 42,000 jobs in the downtown area and an average hotel room-nights per worker of 5.0 would translate to demand for about 620 additional rooms or about 125 per year. This is derived by multiplying the projected increment to employment during the decade times the hotel room-nights per worker, dividing by 365 days and dividing by the assumed occupancy rate for 1990.

In the 1990s, an additional 75,000 downtown jobs and a continued rise in hotel room-nights per worker, averaging 5.4, would generate demand for about 1,730 net additional hotel rooms by the year 2000, or an average of 170 per year. Therefore, by 2000, business visitors would support about 8,330 hotel rooms.

Convention Visitors

The convention market, the second segment of hotel demand, would require 1,500 net additional hotel rooms in the 1990s. Boston hosted 269,000 convention delegates in 1978 and 320,000 in 1985, and is projected to welcome 570,000 by 1990 and 800,000 by 2000. The average length of stay was 2.2 days in 1978 and 2.0 days in 1984 and is expected to stay around those levels. Convention demand supported 2,100 hotel rooms in 1978 and nearly 3,000 rooms in 1985. By 1990, delegates would require an additional 1,340 rooms, or about 270 per year. Between 1990 and 2000, the convention market would demand an additional 1,500

rooms, or an average of 150 per year. By 2000, convention visitors would support about 5,840 hotel rooms.

Tourist Visitors

Boston's tourist visitors totalled 5.1 million in 1978 and 5.9 million in 1985, and are projected to increase to 6.3 million in 1990 and 6.8 million in 2000. Boston's hotel capture rate of tourist visitors rose from 7.8 percent in 1978 to 9.4 percent in 1984 and is projected to rise to 10 percent in 1990 and 12 percent in 2000. Tourist visitor hotel room demand had grown from 1,420 in 1978 to 2,340 in 1985. Tourist visitors would require an additional 60 rooms by 1990. In the 1990s, tourist visitors would generate demand for 580 additional hotel rooms. By 2000, tourist visitors would require a total of about 2,980 hotel rooms.

In sum, the three segments of hotel demand would require a hotel stock of 13,340 in 1990, or 2,025 net additional rooms between 1985 and 1990, an average of 405 per year. The required hotel stock in the year 2000 would reach 17,150, calling for a net addition of nearly 3,800 hotel rooms between 1990 and 2000 or an average of 380 per year.

Demand for Housing

Population growth has accompanied expansion in Boston's economy. A reversal of three decades of population decline in the City of Boston resulted in an increase in the number of residents from 563,000 in 1980 to an estimated 607,000 in

1985, an 8 percent rise. Further growth in the city is likely as the population of the Boston metropolitan area is projected to grow by over 625,000, or 17 percent between 1983 and 2000. If the city's population were to grow by a similar rate, say 15 percent from 1985 to 2000, Boston would have nearly 700,000 residents by the turn of the century. The related increase in the number of households would require around 37,000 additional housing units. Shortfalls in production would apply additional pressure to the city's currently tight housing market.

Housing market pressure was particularly heavy in 1985 and 1986. The median price of a single-family home in the City of Boston rose by 37 percent in 1985. A nationwide survey by the National Association of Realtors found that the Boston metropolitan area had the highest increase in housing prices in May of 1986 in the nation.

Low vacancy rates are indicators of the intensity of market demand in relation to supply. A survey conducted in the spring and early summer of 1985 by the Rental Housing Association and the Greater Boston Real Estate Board found that, in a sample of 1,887 privately-owned regulated rental units in Boston, the vacancy rate was less than one percent. Another indicator of the vacancy rate in Boston is that of the Federal Home Loan Bank Board-sponsored U.S. Postal Survey-Housing Vacancy Report, funded by the U.S. Department of Housing and Urban Development and conducted in April 1985. This study found an overall vacancy rate among

multi-family units in Boston of 2.8 percent. Adjusting for uninhabitable units in Boston Housing Authority developments, the vacancy rate was 1.8 percent.

The Executive Office of Communities and Development (EOCD) completed a housing needs analysis in 1984 in Massachusetts. For the purpose of the survey, need for rental housing was defined as households who met one of the following criteria:

(1) households who pay over 25 percent of their income toward rent;

(2) households living in substandard conditions;

(3) households living in over-crowded conditions.

The survey defined the need as the gap between the housing requirements of the population expressed in unit cost and size and the supply of standard units in corresponding cost and size. Their survey revealed an unmet need of 39,298 family units and 18,576 elderly units.

In the next five years, increases in population and households, combined with a modest rate of production of net additional housing units, should maintain a strong demand for housing in the City of Boston. In the 1990s, the 1,765 housing units proposed for the Midtown/Cultural District, though equal to about one-half of the current annual production of units in Boston, would be only a small part of the needed housing supply. If the city's household population were to increase by 15 percent between 1985 and 2000, the city would require at least a net increase of 15

percent, or 37,000 housing units, assuming a constant average household size. In the 1990s, Boston would require 25,000 housing units to keep up with that level of demand, 7 percent of which would be built in the Midtown/Cultural District.

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